

Message Text

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P 010030Z MAR 74 ZFF4
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO PRIORITY
AMEMBASSY CANBERRA PRIORITY
AMEMBASSY JAKARTA PRIORITY

C O N F I D E N T I A L STATE 041011

EXDIS, TODEP 76 ZFF4 CANBERRA ONLY

E.O. 11652: GDS

TAGS: ENRG, ID, JA

SUBJECT: INDONESIAN LNG

REF: A. STATE 237676; B. STATE 243613

1. PACIFIC LIGHTING (PL) PRESIDENT RENSCH CALLED ON DEPART-
MENT (JAPAN DESK) FEB 27 TO REPORT ADVERSE TURN IN PRICE
NEGOTIATIONS WITH PERTAMINA.

2. FOLLOWING PERTAMINA INDICATION TO PL DEC 5 THAT IT
WISHED RENEGOTIATE PRICE (REF B), TALKS WERE OPENED IN
HONOLULU IN JANUARY WITH WIJARSO AND TIRTO. PERTAMINA
ASKED FOR A) AN INCREASE IN FOB NORTH SUMATRA PRICE FROM
0.63 DOLLARS TO 0.80, B) PRICE ESCALATION PROVISION WHICH
WOULD GUARANTEE THE HIGHER OF EITHER A 4 PERCENT ANNUAL
INCREASE OR PRICE RISE PEGGED TO RISES IN PRICE OF
INDONESIAN CRUDE, AND C) A MOST-FAVORED-PRICE PROVISION
WHICH WOULD ENSURE THAT PERTAMINA WOULD GET AS HIGH A PRICE
FOR ITS LNG AS THAT PAID TO ANY OTHER FOREIGN SUPPLIER BY
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PL.

3. PL RESPONDED THAT THEY WILLING CONSIDER 66-67 CENTS PER MILLION BTU AND A MAXIMUM PRICE ESCALATION LIMIT OF 3 PERCENT PER YEAR. PL NOT OPPOSED TO MOST-FAVORED-PRICE NOTION BUT DID FIRMLY OBJECT TO ANY FORMULA PEGGING LNG PRICE TO PRICE OF INDONESIAN CRUDE OIL.

4. HONOLULU TALKS BROKE OFF AMICABLY. NEITHER INDONESIAN NEGOTIATOR RESORTED TO PRESSURE TACTICS. (SUBSTANCE PARAS 2-4 IN HEAVNER FEB 26 LETTER TO TOUSSAINT.)

5. RENSCH NOW REPORTS, HOWEVER, RECEIPT PERTAMINA TELEGRAM FEB 26 CALLING FOR RESUMPTION OF PRICE TALKS IN JAKARTA IN MID-MARCH AND THREATENING TERMINATION OF PL CONTRACT BY END OF MARCH IF AGREEMENT ON PRICE NOT REACHED BY THEN. PERTAMINA ASSERTED IT COULD NOT GET GOI APPROVAL FOR PL CONTRACT IN ITS PRESENT FORM.

6. MAJOR REASON FOR INDONESIAN EFFORT TO REVISE PL PRICE UPWARD APPEARS TO BE HIGH PRICE WHICH JAPANESE CONSORTIUM CONTRACTED IN DECEMBER TO PAY FOR INDONESIAN GAS. ACCORDING PL, THAT COST WOULD BE 0.99 DOLLARS PER MILLION BTUS FOB PLUS PREMIUM BASED ON PRESENT INDONESIAN CRUDE OIL PRICE, WHICH WOULD COME TO ANOTHER 0.60 DOLLARS.

7. PL BELIEVES THAT JAPANESE WILL HAVE DIFFICULTY DISTRIBUTING LNG IN JAPAN IF COST THAT HIGH, SINCE PRICE TO JAPANESE CONSUMER WOULD BE HIGHER THAN FOR EQUIVALENT ENERGY FROM PETROLEUM. ACCORDINGLY, PL BELIEVES JAPANESE CONSORTIUM MAY WISH TO REVISE ITS DECEMBER PRICE FORMULA. PL ALSO HAS REPORTS THAT RIVAL JAPANESE FIRMS (E.G. MITSUBISHI) MAY HAVE OWN REASONS FOR BEING DISSATISFIED WITH PRICE ACCEPTED BY A CONSORTIUM IN WHICH IT DID NOT PARTICIPATE AND THAT GOJ HAS STILL NOT GIVEN ITS FINAL APPROVAL TO DECEMBER CONTRACT.

8. PL ITSELF IS CLOSE TO FINAL COMMITMENTS ON AN INVESTMENT IN TANKERS AND PORT FACILITIES EXCEEDING 1 BILLION DOLLARS IN COST. THIS WOULD BE A SPECIALIZED INVESTMENT WHICH COULD NOT BE READILY DISPOSED OF OR SWITCHED TO CONFIDENTIAL

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OTHER USES. THEREFORE PL NEEDS A PRICE FORMULA UNDER WHICH COST OF LNG WOULD BE COMPETITIVE OVER LONG TERM WITH COST OF OTHER FUELS.

9. PL'S DOLLARS 0.63 PRICE WAS INCLUDED IN ITS SECTION 7 APPLICATION FILED WITH FPC ON FEB 15. (PL'S EARLIER SECTION 3 APPLICATION, FILED NOV 30, HAD OMITTED PRICE

PROVISIONS.) IF JAPANESE DO NOT ALREADY KNOW PRICE TO PL, THEY WILL KNOW IT WHEN PL'S APPLICATIONS BECOME PART OF FPC PUBLIC RECORDS. PL HAS TOLD FPC OFFICIALS INFORMALLY THAT PERTAMINA ASKED IN DECEMBER FOR RENEGOTIATION OF PRICE. PERTAMINA ALSO KNOWS THAT DOLLARS 0.63 PRICE WILL BECOME PUBLIC KNOWLEDGE SHORTLY.

10. PL APPARENTLY HAS NOT BEEN IN TOUCH WITH MEMBERS OF JAPANESE CONSORTIUM ON SUBJECT OF COMPARATIVE PRICES OR

OTHER ASPECTS OF THEIR RESPECTIVE CONTRACTS WITH PERTAMINA, EVEN THOUGH EXCHANGE OF TECHNICAL INFORMATION WITH SEVERAL JAPANESE GAS UTILITY COMPANIES IS CLAIMED TO BE GOOD. IN THIS CONNECTION, WORTH NOTING PL KNOWS OF NO OTHER IMPORTERS OF LNG ASIDE FROM JAPANESE AND U.S. UTILITIES WHO WOULD BE WILLING PAY PRICES ASKED BY INDONESIANS.

11. FOR JAKARTA: REQUEST EMBASSY INQUIRE ABOUT STATUS PL DEAL WITH APPROPRIATE GOI AND PERTAMINA OFFICIALS AND REPORT THEIR CURRENT VIEWS. WOULD ALSO APPRECIATE EMBASSY COMMENTS ON GOI TACTICS AND INTENTIONS, E.G., HOW IMPORTANT TO GOI IS MARKET DIVERSIFICATION?

12. FOR TOKYO: EMBASSY REQUESTED, AT ITS DISCRETION, SOUND OUT JAPANESE SOURCES DISCREETLY FOR THEIR FEELINGS ON QUESTIONS OF JAPANESE DESIRE TO REVISE LNG PRICE DOWNWARD AND OF COOPERATION WITH PL. CASEY

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